

# News Release



***Controller of the State of California - Kathleen Connell***

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**FOR IMMEDIATE RELEASE**

## ***CONNELL ISSUES WARNING THAT BUDGET IMPASSE WILL HIT COUNTIES HARD THIS YEAR***

***State Controller Says Record \$721 Million in County and City  
Payments Could be Missed***

SACRAMENTO, July 1, 1998 -- With the new fiscal year off and running without a state budget, State Controller Kathleen Connell expressed serious concern that new and severe consequences will soon be felt at the county level if a prolonged budget stalemate develops.

"The good news for California is that the state's treasury is overflowing with a surplus of funds. Unfortunately, many county coffers do not share that same fiscal solvency," said Connell. "Our office is concerned that several cities and counties and their programs are in dire need of state funding and may be unable to weather a sustained budget impasse that would prevent me from forwarding automatic state disbursements."

Connell was referring specifically to payments totaling \$721 million to California cities and counties. This includes a \$406 million transfer to the counties' trial court system due on July 15, a \$220 million Motor Vehicle License Fees (MVLFF) payment on July 10 and a \$95 million Highway Users Tax payment due on July 30. Without a signed budget, the Controller's office does not have the legal authority to make these payments. Connell noted that the routine trial court payment was only \$50 million during last year's budget stalemate, and therefore easier for the counties to digest. This year's quarterly payment ballooned eight-fold, due to last year's Trial Court Funding legislation that shifted the primary funding responsibility for the courts from the counties to the state. Connell said that this year's payments are even more critical because of the funding gulf several of the state's trial court systems are already in.

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"This early financial jolt will leave many cities and counties up and down the state scrambling to meet their payrolls and other obligations," said Connell. "Depending on the fiscal circumstances in each locality, it could even force the shutdown of critical local services. Funds for the court system will be among the first to go."

Connell also noted that the potential for delayed MVLF payments arrives at a time that highlights the environment in which current negotiations between the Governor and Legislature should be made: "It's important to realize that many counties have pledged revenues from their motor vehicle license fees to bondholders as security for local bonded indebtedness. These are long-term obligations that reach far into the next century."

The Controller said that 41 jurisdictions in California have pledged future collections of MVLF in payment of bonded indebtedness for construction or operation of important community facilities.

"I urge the Legislature and the Governor to keep in mind as they discuss the continuation or reduction of the vehicle license fee that revenue has been pledged, in some cases far into the next century," added Connell. "Any reduction in these fees must be replaced by another stream of long-term revenue to support the \$1.2 billion pledge to support California local government bonds."

Connell continued that "It has been reported that there is no real impact on Californians if the budget is not passed and signed by July 1. As the Chief Financial Officer of the State, I must tell you that statement is false. Cities, counties and California small businesses who provide local governmental services will face cash-flow pressures."

With the exclusion of some legislative staffers and high-level appointees, Connell made it clear that she intends to pay most state employees even if a budget agreement is not reached. She continued, however, that she hoped a conclusion on the budget impasse could be made before the state defaults on payments to its vendors -- also putting them in financial jeopardy. Vendor payments could be missed as soon as July 10.